

Guidance Notes

STARTUP FINANCE FOR SOLE TRADERS

We are often asked how and from where finance can be raised to launch a new business. It is critically important to arrange, in advance, enough finance to meet the needs of your business especially through the early stages as you build your customer base and cash flow. There may be equipment you need and other set up costs to be financed and you may not immediately generate enough income to pay yourself a salary. All these issues need to be taken into account in your <u>business plan</u> and provision made both for your business and <u>personal needs</u>. This guidance will hopefully give you some ideas on where you can look for finance. These notes focus specifically on startup finance appropriate for sole traders and small businesses with a relatively small capital requirement.

Savings

Savings can provide a cushion in the early stages when you are building up your business and it may not be possible to draw an income. Whilst it is not advisable to commit all your personal savings to a new venture, savings can help reduce your reliance on borrowed money which must be repaid, often by monthly instalments.

Part time employment

If your new business does not require your full-time commitment consider whether you can start the business alongside your existing employment, whether this is part-time or full-time, to maintain at least some income alongside any savings you may have.

The Start-Up Loan Company

The StartUp Loans Company is a government sponsored initiative to lend money to individuals setting up a new business. The company can offer loans of up to £10,000 to a new business at a rate of 6% and will provide a mentor to support you. Application can be made direct to the Start-Up Loan Company or through one of their delivery partners. For more information see www.startuploans.co.uk

High Street Banks

It is widely believed that the big banks will not lend to small businesses, but this is not true. They will, however, only lend to support a good business plan and they expect their customers to have a good credit rating and it is these conditions which frequently prevent a loan being granted. Preparation is key to a successful loan application and time invested in your business plan will rarely be wasted. The banks will generally lend on an unsecured basis up to a certain limit. Loans can be made to individuals or companies but if made to a company you will almost certainly be required to provide a personal guarantee.

On Line Banks

In addition to the traditional high street banks there are now many on-line and telephone only banks, including some of the major supermarkets. They will only lend to individuals, so it would be a personal loan and like the high street banks they will only lend to a customer with a good credit record but their rates can often beat the high street banks.

Crowd Funding

Crowd funding is a relatively new form of lending where the money required is put up by individuals rather than banks. Crowdfunding companies manage the process on behalf of the investors and borrowers and offer personal loans at very good rates. Once again, the customer's personal credit rating is key. The two leading crowdfunders are Zopa and Ratesetter. For more information see www.zopa.com and www.zopa.com an

Hire purchase and leasing

If you need to purchase equipment for your business, perhaps a van, tools or machinery, consider leasing or hire purchase. Hire purchase and leasing companies will look at the vehicle or equipment as security and are therefore more likely to approve a request for finance, although your personal credit rating will still be a factor in their decision.

Grants

There are no generally available government grants to launch a new business. Grants are sometimes available to support a particular activity (e.g. green technology), region or community development. Your local town or district council will be able to advise you on any grants that are available locally. The GOV.UK website also has a search tool which can be helpful to search for grants www.gov.uk/business-finance-support-finder

For those on Job Seekers Allowance there is the New Enterprise Allowance which provides a transitional income for 6 months and comes with free mentoring and help in finding finance if needed.

Friends and Family

Friends and family may be prepared to help with finance on terms which would be less demanding than a commercial loan. Whilst there are clear benefits from such help, it is important to consider the impact on your friends or family, and your personal relationships, if the business is not ultimately successful.

Other Organisations

The Princes Trust www.princes-trust.org.uk provides funding for young people, aged 18 – 30.